

U.S. "USA Today" 20 Feb 98
economist has ear of Suharto

By Christopher Torchia
The Associated Press

JAKARTA, Indonesia — He smokes a pipe, wears his glasses on the tip of his nose and enjoys a special access to President Suharto that most confidants would envy.

American economist Steve Hanke has the ear of Asia's longest-serving leader these days, but he's tired of all the criticism his ideas are getting from Western leaders and lenders.

"This sounds a little bit like a broken record," Hanke, 55, said at a news conference Thursday after meeting Suharto. "They are all saying the same thing."



By MICHAEL ZANANIS, AP
Hanke: Economist at Johns Hopkins

At issue is Hanke's role as champion of a currency board system for economically battered Indonesia, which would set the fluctuating rupiah at a fixed rate against the dollar.

The professor of applied economics at Johns Hopkins University in Baltimore says it's the only way to stabilize the currency and revive the once-booming economy.

Others don't think so. The International Monetary Fund, engineer of a \$43 billion rescue plan for Indonesia, says a currency board is "premature" and would jeopardize the bailout.

A host of U.S. and European officials agree. Such a system would

strip the central bank of the ability to set monetary policy, including control of interest rates.

But 76-year-old Suharto, casting about for ways to fix his sick economy, summoned Hanke to the Indonesian capital a few weeks ago and has met him regularly at his home.

Hanke, who helped Bulgaria, Lithuania, Estonia and Argentina implement currency boards, huddled with Suharto for more than an hour Wednesday night and again Thursday morning.

Few Indonesian ministers get such access. And earlier this week, Suharto dismissed the central bank governor, who was said to oppose a currency board.

"Speed is of the essence," said Hanke, who wants a board in place as soon as possible.

Opponents of Hanke's plan say it ignores the uncertainty surrounding Indonesia's political future. Despite worries about his health, Suharto is expected to win a seventh, five-year term in assembly elections next month.

Critics also question whether Indonesia has enough foreign reserves to support a currency board. Under the system, every bank note and coin in circulation must be matched by foreign currency held by the government.

Hanke, however, says a currency board will pave the way for IMF-led economic reforms, not hinder them. Without a fixed exchange rate, he warned, the rupiah will plunge and inflation will soar.

"Under that scenario, you have higher risk," he said. "You really are dancing on a volcano."